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No. 05-130

IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF PETITIONERS

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QUESTIONS PRESENTED

1. Whether the Federal Circuit erred in setting forth a general rule in patent cases that a district court must, absent exceptional circumstances, issue a permanent injunction after a finding of infringement.

2. Whether this Court should reconsider its precedents, including *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), on when it is appropriate to grant an injunction against a patent infringer.

PARTIES TO THE PROCEEDINGS

In addition to the parties named in the caption, ReturnBuy, Inc. was initially a defendant in this action. Prior to trial, ReturnBuy, Inc. filed for bankruptcy protection and settled with respondent MercExchange, L.L.C.

Petitioner eBay Inc. has no parent corporation, and no other publicly held corporation owns more than 10% of its stock. Petitioner Half.com, Inc. is a wholly owned subsidiary of Petitioner eBay Inc., which is a publicly held corporation.

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OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-28a) was entered on March 16, 2005, and is reported at 401 F.3d 1323 (Fed. Cir. 2005). The order of the court of appeals denying the petition for panel rehearing and rehearing *en banc* (Pet. App. 77a-78a) was entered on April 26, 2005, and is unreported. The opinion of the United States District Court for the Eastern District of Virginia (Pet. App. 29a-74a) was entered on August 6, 2003, and is reported at 275 F. Supp. 2d 695 (E.D. Va. 2003).

JURISDICTION

The court of appeals entered its judgment on March 16, 2005. Petitioners timely filed a petition for panel rehearing and rehearing *en banc* on March 30, 2005, which the court of appeals denied on April 26, 2005. Petitioners timely filed their petition for certiorari on July 25, 2005, and this Court granted the petition on November 28, 2005. This Court has jurisdiction under 28 U.S.C. § 1254(1).

RELEVANT STATUTORY PROVISIONS

35 U.S.C. § 283 provides that:

> The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

The other relevant provisions are reproduced in the appendix to this brief.

STATEMENT OF THE CASE

35 U.S.C. § 283 unequivocally provides district courts with equitable discretion because Congress provided that district courts "may"—not "shall"—grant or deny injunctive relief

"in accordance with the principles of equity." *Id.* Those familiar equitable principles are irreparable injury, adequacy of the remedy at law, balancing of the hardships, and the public interest. Further, § 283 vests discretion in the district courts. Thus a district court's determination under § 283 can be reviewed only for an abuse of discretion. In the decision below, the Federal Circuit violated each of these aspects of § 283.

By setting out a near-automatic rule requiring district courts to issue permanent injunctions after a finding of infringement, the Federal Circuit effectively eliminated the district courts' discretion to deny injunctive relief based on the traditional four-factor test. In this case, the district court denied a permanent injunction after careful and reasonable consideration of these four equitable factors. However, the Federal Circuit did not review the district court's determination for abuse of discretion in the application of those four factors. Instead, it held that the district court had not provided a persuasive reason to deny an injunction—a virtually impossible task under the Federal Circuit's near-automatic injunction rule.

When the dictates of 35 U.S.C. § 283 to use the four-factor test and the abuse-of-discretion standard of review are followed, the district court's determination was more than reasonable, and can only be affirmed. It could not be an abuse of discretion for the district court to deny a permanent injunction where the patentee had never built or practiced its invention, exists solely to license its invention, and has publicly stated that it is only interested in royalties, and the defendant will try to design around the patent rather than continue to infringe. Under these circumstances, any possible harm is not irreparable and can be adequately compensated with money damages.

Reversing the Federal Circuit would take away from patentees only what Congress never gave them: the tremendous *in terrorem* leverage of a permanent injunction in settlement negotiations. Given the possibilities of violating the injunction order due to often vaguely defined patents, and triggering the severe contempt powers of a federal court, most defen-

dants are coerced into settling and must abandon even meritorious appeals, as well as reexamination challenges in the Patent and Trademark Office ("PTO"). Detached from the principles of equity, the Federal Circuit's near-automatic rule improperly turns injunctive relief from a remedy designed to protect against patent violations into a "club to be wielded by a patentee to enhance his negotiating stance." *Foster* v. *Am. Mach. & Foundry Co.*, 492 F.2d 1317, 1324 (2d Cir. 1974).

STATEMENT OF FACTS

1. Petitioner eBay operates a website on the Internet that allows sellers to list, and buyers to search for and purchase, goods either through an auction-style format or at a fixed price. Buyers browse or search those listings and purchase goods directly from the sellers in "person to person" transactions. eBay was launched in September of 1995, and has since become one of the largest online marketplaces, with more than a hundred million registered members located around the world. Petitioner Half.com, a wholly-owned subsidiary of eBay, operates a website on the Internet that allows sellers to list, and buyers to search for and purchase, goods directly from sellers at a fixed price. As the Federal Circuit noted, "[a]t issue in this case is the fixed-price purchasing feature of eBay's website, which allows customers to purchase items that are listed on eBay's website for a fixed, listed price." Pet. App. 2a.

Respondent MercExchange, L.L.C. ("MercExchange") is an entity that, as the district court found, "does not practice its inventions and exists merely to license its patented technology to others." Pet. App. 54a. In September of 2001, MercExchange filed a lawsuit in the United States District Court for the Eastern District of Virginia, claiming that eBay, Half.com, and ReturnBuy, Inc. infringed upon three patents.

nos. 5,845,265 ("the '265 patent"), 6,085,176 ("the '176 patent"), and 6,202,051 ("the '051 patent"). *Id.* at 1a.[1]

2. MercExchange was founded by the sole named inventor of the patents in suit, Thomas Woolston, a patent attorney. Woolston's idea was to computerize traditional consignment store operations by establishing an "'electronic network of consignment stores.'" Pet. App. 4a. These consignment "stores"—or "nodes"—would be managed exclusively by trusted ("vetted" and "franchised") "consignment node operators." That trusted node operator—not an anonymous seller—would ensure that the good offered for sale was bona fide, take possession of the good, obtain the right to transfer ownership through a bailment or consignment contract, and post a description of the good on the consignment network. JA 386 (Abstract); 400 (2:19-67); 335-36; 569-70. Additionally, only trusted consignment node operators could post goods on the network.

The primary concern behind Woolston's system of trusted consignment node operators was that potential buyers wishing to purchase a good would *not* take the "leap of faith" necessary to deal directly with an anonymous or unfamiliar seller. JA 176; 877-78. Similarly, while a system involving a trusted intermediary that can take possession of a good is capable of transferring legal ownership, a person-to-person system (such as eBay's) that never takes possession cannot. JA 165-67; 429 (17:1-12, 18:27-37); 208.[2]

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[1] Prior to trial, ReturnBuy, Inc., ("ReturnBuy"), which owned and operated an Internet website that directed its customers to eBay's website where they could purchase ReturnBuy's goods, filed for bankruptcy protection and executed a settlement with MercExchange, in which ReturnBuy was granted a nonexclusive license.

[2] eBay does not own, take possession of, inspect or transfer ownership of the goods posted on its website. JA 175-78; 197-201; 207-09. Individual buyers and sellers are responsible for and in fact complete transactions directly with each other. JA 178-79; 204-07.

Woolston filed a patent application on his consignment concept in April 1995, but ultimately was forced to abandon this application after repeated rejections by the PTO. Since then, MercExchange has filed dozens of patent applications, all based on Woolston's consignment concept.

In September 1995, eBay launched its website and established a system that is the polar opposite of Woolston's consignment concept. Adopting the very philosophy that Woolston shunned, eBay implemented a person-to-person model on the revolutionary assumption that even anonymous buyers and sellers are basically good and will not cheat one another. JA 198-201; 568-69; 769; 770-72; 774-75; 89. In eBay's model, buyers and sellers deal directly with one another and consummate transactions themselves. JA 177-78; 570-72; 94. eBay also does not, contrary to Woolston's consignment concept, act as a gatekeeper for its website by assuming exclusive control over all items posted for sale. eBay does not direct, act as an intermediary, nor take responsibility for consummating transactions between buyers and sellers. JA 178-79; 199-207. Unlike Woolston's concept, eBay does not take possession of the goods, inspect them, confirm they are bona fide or obtain any right to transfer legal ownership. JA 177-81; 723-25; 767-68.

Two months after eBay's public launch, MercExchange filed another patent application in November 1995, seeking to expand the description in its original, rejected application. As eBay gained popularity, MercExchange continued to add new claims and, in 1998, ultimately convinced the PTO to issue U.S. Patent No. 5,845,265 ("the '265 patent"), at issue here. JA 386. By then, eBay had been operating its website for three years, achieving remarkable growth and success. JA 797-98; 809.

MercExchange, taking notice of eBay's success, developed a strategy of suing. JA 1028-32; 367-68. MercExchange, while secretly planning to sue eBay, contacted eBay under the guise of offering to assist eBay with another dispute. JA 310-

11; 588-89; 669-70; 671-75; 688-89; 742-45; 133-36; 143-45. The parties met in June 2000 and MercExchange carefully avoided suggesting that eBay infringed its patents. JA 681-82. Despite this, MercExchange sued in September 2001.

3. Prior to trial, the district court granted in part and denied in part eBay's motion for summary judgment as to the '051 patent, leaving the '265 and '176 patents for trial. The Court stated that each side presented "compelling evidence" concerning non-infringement of the '265 patent. Dkt. 274 at 5.

4. During a two-day *Markman*[3] hearing to construe the patents' scope, the parties hotly debated whether MercExchange could expand the claims-in-suit to cover person-to-person systems. JA 156-57. MercExchange repeatedly acknowledged that eBay was a "person-to-person" system but argued that its claims could cover such a system—despite the diametrically opposed "trusted intermediary" system on which its claims rested. *Id.*; JA 204-07. In contrast, eBay presented evidence that Woolston did not invent or disclose a system involving person-to-person transactions. JA 159-62. On the contrary, the patent teaches *away from* such transactions—everything disclosed in the '265 patent revolves around a trusted intermediary to present a good to market, add value to the description of the item, transfer ownership of the item, and extract a commission based on the sales price. JA 159-62; 163-64; 165-67.

The district court construed the claims of the '265 patent to require an electronic market that comprises a "trusted network" that completes transactions for buyers and sellers and is capable of transferring "legal ownership" of an item for sale. *Id.* Moreover, the district court's *Markman* rulings expressly found that the '265 patent teaches away from a system of person-to-person transactions. JA 159-62; 163-64. The rulings further clarified that merely changing a "data record"

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[3] *Markman* v. *Westview Instruments, Inc.*, 517 U.S. 370 (1996).

to associate the good with the buyer instead of the seller is not enough to transfer ownership of the good. JA 165-67. Rather, a system based on '265 must be capable of *actually* transferring *legal* ownership—something eBay does not do. *Id.* MercExchange moved for reconsideration of the *Markman* rulings, but the district court reaffirmed them. JA 226-27; 256-60; 1037-79.

5. MercExchange and eBay filed initial cross-motions for a judgment as a matter of law ("JMOL") before the trial commenced. In denying MercExchange's motion, the district court stated that "it is clear to the Court that substantial questions exist as to whether the defendants infringe any of the asserted claims of the patent at issue." JA 868. Further, in denying eBay's motion, the district court found that "whether or not there was sufficient evidence on willfulness was a close call and the court reserved the right to revisit the issue after the jury returned its verdict." Pet. App. 70a.

6. Despite the district court's *Markman* ruling, MercExchange argued to the jury that eBay's person-to-person system was a "trusted network." *Compare* JA 159-62 *with* 904-05. MercExchange's own experts could not define the term, nor ascertain the boundaries of the claims:

> [T]hat question is very difficult to answer because trust is not an absolute. Trust is a goal. ... So if you get the feeling you are secure, you can trust it, then it is a question of trust. And there are many measures that demonstrate to increase your comfort level of trust. And if you have these things, then you will probably be trusted.

JA 776-78; *see also* 763-64 ("I don't think that the issue is cut and dry. ... I don't believe there is a single instantiation, but I believe that trust has typically some of these elements that I have talked about"); 776-79 (trust depends on the subjective comfort level of a person skilled in the art); 248-52 (MercExchange arguing that the term "trusted network," alone, does not provide sufficient guidance as to whether eBay's opera-

tions infringe and, without more, would violate "fundamental due process"). Similarly, MercExchange argued that mere modification of a data record could constitute a transfer of "legal ownership," despite the fact that the issue was resolved against MercExchange in the *Markman* rulings. *Compare* JA 165-67 *with* 905.

At the conclusion of the trial, the jury found that eBay had not overcome the presumption that the '265 and '176 patents were valid.[4] Further, the jury found that eBay had infringed both patents. In particular, the jury found that eBay had willfully infringed the '265 patent and had induced ReturnBuy to do the same. Further, the jury concluded that Half.com had willfully infringed the '265 and '176 patent. The jury held eBay liable for $10.5 million for infringement of the '265 patent and $5.5 million for inducing ReturnBuy to violate that patent. Half.com was found liable for $19 million for infringing both the '265 patent and the '176 patent.

Subsequently, eBay and Half.com filed a post-trial JMOL motion, and MercExchange filed a motion for a permanent injunction, enhanced damages, and attorneys' fees.

A. The District Court's Opinion

1. The district court agreed with eBay that the jury had improperly assessed damages for both infringement and inducement of the '265 patent. Finding that such damages amounted to a double-recovery, the district court reduced eBay's damages by $5.5 million. The district court, however, declined to set aside the jury verdict against eBay for infringement and for inducement of ReturnBuy to infringe.

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[4] Under 35 U.S.C. § 282, "[a] patent shall be presumed valid." "The decisionmaker is thus required to begin by accepting the proposition that the patent is valid and then look to the challenger for proof to the contrary." *Lear Siegler, Inc.* v. *Aeroquip Corp.*, 733 F.2d 881, 885 (Fed. Cir. 1984).

The district court denied MercExchange's request for enhanced damages and attorneys' fees. *Id.* at 67a-72a. Several of the court's findings militated against awarding enhanced damages or attorneys' fees against eBay.

> **The defendants maintain that their success did not arise from the use of anything contained in the plaintiff's patents. Moreover, the defendants argue that the patents offer no business or engineering guidance which the defendants could copy. This court agrees.** While the jury found that there was insufficient evidence to find these patents invalid for lack of enablement, there was expert testimony describing the lack of source code and other features which would allow another to implement these patents. Moreover, eBay was using payment processors long before it received notice of the '265 patent, despite the fact that the purchase of PayPal occurred following that time. Therefore, the court finds that this factor does not weigh in favor of enhancing the damages.

Id. at 68a-69a (emphasis added).[5] MercExchange did not even attempt to present evidence that any eBay engineer saw or used the MercExchange patents. The claims of the '265 patent relied on subject matter that was added by MercEx-

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[5] Indeed, MercExchange's own expert admitted that eBay had enjoyed significant commercial success before any claim for infringement:

> Q. And in studying eBay for this case, including the materials and information I've just read, you reached the conclusion that eBay has enjoyed significant commercial success, including industry recognition and awards, as of June 2000, correct?
>
> A. Yes.
>
> Q. And all of that success that eBay achieved was achieved prior to any claim that eBay infringed any patent in this case, right?
>
> A. I believe that timing is correct, yes.

JA 766-67. Another expert who testified on behalf of MercExchange, also conceded that eBay was a huge success by July 2000 before any alleged infringement. JA 797-98.

change in November 1995, two months after eBay had officially launched.

The district court reiterated that the "case was sufficiently close, a factor that weighs against the imposition of enhanced damages." *Id.* at 70a. Moreover, the court found that "there has been no indication that the defendants attempted to conceal their misconduct, nor has the plaintiff made such an allegation." *Id.* at 72a.

2. Using its equitable discretion under 35 U.S.C. § 283, the district court determined that a permanent injunction should not issue under the traditional four-factor test. The district court found that MercExchange would not suffer irreparable injury in the absence of a permanent injunction. The "evidence of the plaintiff's willingness to license its patents, its lack of commercial activity in practicing the patents, and its comments to the media as to its intent with respect to enforcement of its patent rights, are sufficient to rebut the presumption that it will suffer irreparable harm if an injunction does not issue." *Id.* at 55a.; *id.* at 54a ("Indeed, the plaintiff has made numerous comments to the media before, during, and after this trial indicating that it did not seek to enjoin eBay but rather sought appropriate damages for the infringement.")[6] Moreover, the district court considered, but did not find dispositive, MercExchange's failure to move for a preliminary injunction. *Id.* at 55a.

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[6] The district court quoted MercExchange founder Thomas Woolston as stating that, "'[I]t is not our goal to enforce these patents, we want to sell off our Intellectual Property rights.'" Pet. App. 54a n.13. Further, the district court noted that trial counsel for MercExchange had stated, "'We are seeking reasonable royalties as permitted under the patent laws. It's not our goal to put eBay out of business. It's our goal to provide just compensation for the patent owner.'" *Id.* There was record evidence that MercExchange had granted nonexclusive licenses to ReturnBuy, Goto.Com, LeftBid, NavLet, Aden, and AutoTrader. JA 235-37; 311-13; 321-25; 368-71; 735-38; Fed. Cir. A47243-63; A47304-22; A62238 n.13.

The district court further found that there was an adequate remedy at law, noting that "evidence showing that the patent holder is willing to license his patent rights 'suggests that any injury suffered by [the patent holder] would be compensable in damages assessed as part of the final judgment in the case.'" *Id.* at 56a (alteration in original) (citation omitted). As the district court found, MercExchange "does not practice its inventions and exists merely to license its patented technology to others." *Id.* at 54a.

Third, as to the balance of the hardships, the district court found that because eBay was going to attempt to design around the patents, any injunction would lead to a multiplicity of costly and burdensome contempt proceedings. *Id.* at 59a. Noting that it could minimize any hardship to MercExchange by punishing continuing infringement with enhanced damages, the district court concluded that a balancing of the hardships tipped in eBay's favor. *Id.* at 59a.

The district court also found that the public interest prong neither counseled for or against granting an injunction. While it recognized the public's interest in the integrity of the patent system, the district court noted the concern, expressed by legislators and a former PTO official, over the heightened possibility of invalidity with a business method patent. *Id.* at 57a-58a. The court further noted that "in a case such as this, the public does not benefit from a patentee who obtains a patent yet declines to allow the public to benefit from the inventions contained therein." *Id.* at 57a.

B. The Federal Circuit's Opinion

1. The Federal Circuit held that the '176 patent claims were invalid, and accordingly directed judgment for Half.com in that regard. Pet. App. 3a. The Federal Circuit further found that there was no substantial evidence to support the charge that eBay induced ReturnBuy to infringe the '265 patent. *Id.* However, the Federal Circuit held that substantial evidence supported findings of validity and infringement with

respect to the remainder of the '265 claims. The court also reversed summary judgment as to the '051 patent, and remanded for further proceedings.

The Federal Circuit held that the district court did not "abuse its discretion" in denying MercExchange enhanced damages and attorneys' fees, noting that the court "carefully analyzed each of the [relevant] factors and based its conclusions on the jury's factual findings and the evidence in the record." Pet. App. 28a.

2. In contrast, the Federal Circuit reversed the district court's determination that a permanent injunction was not warranted concerning the '265 patent. The court of appeals held that "[b]ecause the 'right to exclude recognized in a patent is but the essence of the concept of property,' the general rule is that a permanent injunction will issue once infringement and validity have been adjudged." Pet. App. 26a (citation omitted). The sole exception suggested by the Federal Circuit is when "'a patentee's failure to practice the planned invention frustrates an important public need for the invention,' such as the need to use an invention to protect public health." *Id.* (citation omitted). Under this general rule, the court of appeals concluded that "the district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction." *Id.*

First, the Federal Circuit stated that "[i]n its post-trial order, the district court stated that the public interest favors denial of a permanent injunction in view of a 'growing concern over the issuance of business-method patents.'" *Id.* The court reasoned that "[a] general concern regarding business-method patents, however, is not the type of important public need that justifies the unusual step of denying injunctive relief." *Id.*

Second, the Federal Circuit deemed irrelevant the district court's finding that granting an injunction would result in more litigation. Such continuing disputes, the Federal Circuit

held, were not unusual in patent cases. *Id.* at 27a. The Federal Circuit also held that the "fact that MercExchange may have expressed willingness to license its patents should not, however, deprive it of the right to an injunction to which it would otherwise be entitled." *Id.* Lastly, the Federal Circuit held that MercExchange's choice not to seek a preliminary injunction was irrelevant. *Id.* at 27a-28a.

3. Subsequent to the district court's final judgment, the PTO initiated a reexamination of each of the three patents at issue in this case.[7] The Federal Circuit took judicial notice of the fact that reexamination was ordered for all three patents, it later declined to take judicial notice of the PTO's first office action rejecting all of the claims in the '265 patent. JA 1057. The PTO reexamination proceeding will continue independently of the instant litigation.

4. The Federal Circuit granted eBay's motion for a stay of the mandate pending the outcome of eBay's appeal to this Court. *Id.* at 75a-76a.

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[7] Patent reexamination is an administrative revocation proceeding, in which any person may request that the PTO revisit its initial finding of patentability. Upon a request for patent reexamination, a PTO examiner preliminarily determines whether a substantial new question of patentability exists. 35 U.S.C. § 303(a). After further examination, the PTO issues the "first office action," in which the patent examiner declares whether or not the patent is valid. The patent owner then has the opportunity to refute the rejections or narrow its claims by amendment. *Id.* § 304; 37 C.F.R. § 1.550(b). If the PTO ultimately finds that a patentee's claims remain invalid, the agency will issue a "final office action" pursuant to 37 C.F.R. § 1.570, which determination a patentee may challenge before the Board of Patent Appeals. 35 U.S.C. § 306. If the Board affirms the PTO's finding of invalidity, a patentee can appeal to the Federal Circuit or to the United States District Court for the District of Columbia. *Id.* §§ 141, 145. Any determination by the PTO or the Board of Patent Appeals during reexamination, including claim rejections, is nevertheless *not* a final adjudication until the appeals process has concluded. *Id.* § 307(a); *Standard Havens Prods., Inc.* v. *Gencor Indus., Inc.*, 953 F.2d 1360, 1366 n.2 (Fed. Cir. 1991).

SUMMARY OF ARGUMENT

I. A. A statute will be read to deprive a district court of equitable discretion to deny an injunction based on the four-factor test only if such a construction is "textually required." *E.g.*, *United States* v. *Oakland Cannabis Buyers' Coop.*, 532 U.S. 483, 496 (2001). Here, it is "textually required" that district courts *have* their full equitable discretion because 35 U.S.C. § 283 provides that a district court "may grant injunctions in accordance with the principles of equity."

The Federal Circuit's near-automatic injunction rule cannot be reconciled with the plain language of § 283. The sole argument that the Federal Circuit offered to justify its wooden approach is that 35 U.S.C. § 154(a)(1) provides a patentee with a "right to exclude." But, in the Patent Act itself, Congress has balanced that right to exclude with other competing interests, such as promoting competition and the economy.

In 35 U.S.C. § 283, Congress struck the balance by giving federal courts the express *discretion* to deny injunctive relief. Congress also protected the "right to exclude" by providing other potent remedies such as mandatory compensatory damages, including for post-judgment losses, pre-judgment interest, and the possibility of treble damages and attorneys' fees. Because Congress has itself balanced the interests, that should end the matter.

Nor can the Federal Circuit's near-automatic injunction rule be justified by invoking the notion that a patent is property. Section 261 of the Patent Act provides that "*[s]ubject to the provisions of this title*, patents shall have the attributes of *personal* property." 35 U.S.C. § 261 (emphasis added). Section 283's conferral on district courts of discretion to deny injunctive relief is a "provision[] of this title" to which every patent is expressly made "subject." Independently, the grant of injunctions in personal property cases is not nearly automatic, but rather is based on the traditional four-factor test.

B. 35 U.S.C. § 283 vests discretion in the district courts to apply the four-factor test. Section 283 thus limits a court of appeals to review only for an abuse of discretion.

The Federal Circuit violated § 283 by ignoring the abuse-of-discretion standard of review and, instead requiring the district court to provide a "persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction." Pet. App. 26a. In contrast, when the four-factor test and abuse-of-discretion standard of review required by § 283 are applied, the district court's denial of an injunction can only be affirmed.

First, the district court reasonably found that eBay had shown an absence of irreparable harm because MercExchange licenses its patents for money, made repeated statements that damages were both adequate and the only relief it sought, and delayed two years before seeking any form of injunctive relief. *Id.* at 54a-55a. Second, the district court properly found, based on these same facts, that MercExchange's injury was monetary and thus it had an adequate remedy at law. Pet. App. 55-56a. This Court could stop there because "[t]he equitable remedy is unavailable absent a showing of irreparable injury," *Los Angeles* v. *Lyons*, 461 U.S. 95, 111 (1983), and "the inadequacy of legal remedies." *Weinberger* v. *Romero-Barcelo*, 456 U.S. 305, 312 (1982).

In any event, the district court made reasonable findings concerning the other two factors in the four-factor test. The balance of hardships weighed against an injunction because, as eBay was attempting a work-around, additional litigation would be necessary with or without an injunction, and the threat of enhanced damages would deter post-verdict infringement. Pet. App. 58a-59a. Finally, the public interest did not favor an injunction because the public would benefit from continued access to the inventions at issue, and there was a possibility that subsequent regulatory action might invalidate or restrict the patent at issue. *Id.* at 57a. Indeed, after the judgment, the PTO reexamination process currently

has rejected all of the claims in the patent on which the Federal Circuit entered an injunction.

II. For two independent reasons, *Continental Paper Bag, Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908) ("*Continental Bag*"), does not preclude reading the plain language of 35 U.S.C. § 283 to accord district courts their traditional equitable discretion to grant or deny injunctions. First, *stare decisis* could apply only to *Continental Bag*'s holding, not its *dicta*. The holding of *Continental Bag* is limited to its ruling that a patentee's unreasonable nonuse of its invention does not deprive a district court of jurisdiction to grant an injunction. That ruling is irrelevant here.

Second, assuming, for the sake of argument, that the holding of *Continental Bag* required a near-automatic injunction rule in patent cases, that holding should be overruled. Such a holding is irreconcilable with the plain language of § 283; is contradicted by the intervening development of the law; is contrary to 76 years of practice in the federal courts after *Continental Bag*; ignores that in 2006, patent injunctions have vastly different, injurious consequences to the economy that did not exist in 1908; and ignores that an injunction can force a settlement of an alleged infringer's proper invocation of the PTO's reexamination process, a recourse not granted by Congress until 1980. Cumulatively, "changed circumstances and ... lessons of accumulated experience," *State Oil Co.* v. *Khan*, 522 U.S. 3, 20 (1997), would warrant overruling *Continental Bag*, if that were necessary to enforce the equitable discretion mandated by the plain language of 35 U.S.C. § 283.

ARGUMENT

I. THE FEDERAL CIRCUIT'S NEAR-AUTOMATIC INJUNCTION RULE CONTRAVENES THE EXPRESS LANGUAGE OF § 283.

35 U.S.C. § 283 expressly recognizes a district court's equitable discretion. By using the words "may grant injunctions

in accordance with the principles of equity," § 283 unambiguously confers discretion on district courts. Those "principles" are the four-factor test: irreparable injury, inadequacy of legal remedies, balancing of the hardships to the parties, and whether the public interest would be adversely affected. Moreover, section 283 places this equitable discretion in the district courts, i.e., "the several courts having jurisdiction of cases under this title." Section 283 thus obligates the court of appeals to adhere to the "necessarily narrow" standard of review for "abuse of discretion." *Sears, Roebuck & Co.* v. *Mackey*, 351 U.S. 427, 440 (1956) (Frankfurter, J., concurring).

In this case, the Federal Circuit's ruling violated both aspects of § 283. Its nearly-automatic injunction rule supplanted the district court's consideration of the fourfold "principles of equity." Further, by effectively reviewing *de novo* whether the district court provided a "persuasive reason" for its denial of an injunction, Pet. App. 26a, the Federal Circuit also departed from the proper abuse of discretion standard of appellate review. Under the correct test and the proper standard of review as required by § 283, the district court's denial of a permanent injunction can only be affirmed.

A. Section 283 Codifies Equitable Discretion.

1. Section 283 Provides Discretion To Deny An Injunction.

1. Section 283 provides that courts "may" grant injunctions. 35 U.S.C. § 283. It is an axiom of statutory construction that "[t]he word 'may' clearly connotes discretion." *Martin* v. *Franklin Capital Corp.*, 126 S. Ct. 704, 709 (2005) (alteration in original). That a district court "may" grant an injunction cannot be reformulated to mean that it "shall" do so in all but "'rare instances.'" Pet. App. 26a.

Similar to § 283, the Copyright Act provides that a district court "*may* ... grant temporary and final injunctions on such terms as it may deem reasonable to prevent or restrain in-

fringement of a copyright." 17 U.S.C. § 502(a) (emphasis added). Emphasizing the word "may," this Court held that the Copyright Act does not require the automatic grant of an injunction. *New York Times* v. *Tasini*, 533 U.S. 483, 505 (2001) (citing *Campbell* v. *Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994)); see also *Silverstein* v. *Penguin Putnam, Inc.*, 368 F.3d 77, 84 (2d Cir.) (noting that under § 502 "injunctive relief to enforce a copyright is not compelled") (citing *Dun* v. *Lumbermen's Credit Ass'n*, 209 U.S. 20, 23-24 (1908)), *cert. denied*, 125 S. Ct. 815 (2004).

Moreover, in the Patent Act, when Congress wanted to limit a district court's discretion concerning a remedy, it did so expressly. Thus, Congress provided that the "the court *shall* award the claimant damages...." 35 U.S.C. § 284 (emphasis added). Congress also knew how to enact a provision that expressly limited the discretion of the courts to exceptional circumstances. *Id.* § 285 ("The court *in exceptional cases* may award reasonable attorney fees to the prevailing party."). By contrast, § 283 places no such limits.

2. This Court does not interpret a federal statute to require an injunction without regard to equitable principles, unless this is "textually required." *Oakland Cannabis Buyers' Coop.*, 532 U.S. at 496 (because "the district court's use of equitable power is not textually required by any 'clear and valid legislative command,' the court did not have to issue an injunction."); see also *Amoco Prod. Co.* v. *Vill. of Gambell, Alaska*, 480 U.S. 531, 544 (1987) ("There is no clear indication in [the relevant statute] that Congress intended to deny federal district courts their traditional equitable discretion in enforcing the provision, nor are we compelled to infer such a limitation."); *Romero-Barcelo*, 455 U.S. at 313; *Hecht Co.* v. *Bowles*, 321 U.S. 321, 329 (1944) (injunctions should not issue as a matter of course because "if Congress had intended to make such a drastic departure from the traditions of equity practice, an unequivocal statement of its purpose would have been made").

In *Romero-Barcelo*, the First Circuit imposed a rule obligating district courts to issue permanent injunctions after a finding of a violation of the Federal Water Pollution Control Act ("FWPCA"). 456 U.S. at 311. This Court reversed:

> The grant of jurisdiction to ensure compliance with a statute hardly suggests an absolute duty to do so under any and all circumstances, and a federal judge sitting as a chancellor is not mechanically obligated to grant an injunction for every violation of law.

Id. at 313; *id.* at 311 (an injunction "'is not a remedy which issues as of course'"). This Court held that "[r]ather than requiring a district court to issue an injunction for any and all statutory violations, the FWPCA permits the district court to order that relief it considers necessary to secure prompt compliance with the Act." *Id.* The Court recognized that "[t]he exercise of equitable discretion ... must include the ability to deny as well as grant injunctive relief." *Id.* at 320.

Similarly, in *Amoco*, the Court reversed the Ninth Circuit's general rule obligating district courts to issue injunctions to prevent violations of the Alaska National Interest Lands Conservation Act ("ANILCA"). The Ninth Circuit's rejected rule bears a striking resemblance to the *per se* rule announced in the decision below. Compare *People of Vill. of Gambell* v. *Hodel*, 774 F.2d 1414, 1423 (9th Cir. 1985) ("injunctive relief is the appropriate remedy for a violation of an environmental statute absent rare or unusual circumstances") with Pet. App. 28a ("the general rule [is] that courts will issue permanent injunctions against patent infringement absent exceptional circumstances"). In reversing the Ninth Circuit, this Court held that there was "no clear indication" that Congress had "intended to deny federal district courts their traditional equitable discretion in enforcing the [ANILCA] provision, nor are we compelled to infer such a limitation." *Amoco*, 480 U.S. at 544. The same is true here.

2. Section 283 Requires The Application of the Traditional Four-Factor Test.

Section 283 provides that a district court's discretion will be applied "in accordance with the principles of equity." 35 U.S.C. § 283. These familiar equitable principles are: irreparable injury; inadequacy of legal remedies; balancing of hardships; and, whether an injunction would adversely affect the public interest. *Romero-Barcelo*, 456 U.S. at 312-13; see also *Yakus* v. *United States*, 321 U.S. 414, 440 (1944); 42 Am. Jur. 2d *Injunctions* § 114 (2005). This Court has observed that "[t]hese commonplace considerations applicable to cases in which injunctions are sought in the federal courts reflect a 'practice with a background of several hundred years of history,' a practice of which Congress is assuredly well aware." *Romero-Barcelo*, 456 U.S. at 313 (citation omitted). Accordingly, injunctive relief is available when the district court finds that, on balance, the four "principles of equity" support an injunction.

3. The Federal Circuit Provided No Adequate Justification For Rejecting Equitable Discretion And The Four-Factor Test.

The district court in this case correctly analyzed MercExchange's motion for a permanent injunction under the four-factor test, and properly exercised its discretion to deny such relief. The Federal Circuit reversed, holding that MercExchange enjoyed a "right to an injunction" to which it was "entitled." Pet. App. 27a. Under this rule, once infringement is found, a district court must grant an injunction except in those "rare instances" where an injunction would harm the public interest. *Id.* at 26a. That exception is not only "rare[ly]" applied, the Federal Circuit has only identified public health as rising to the level of such an exception. The Federal Circuit's zero (or at most one) factor test is the antithesis of the traditional four-factor approach.

The Federal Circuit's sole argument for its near-automatic injunction rule is that "the 'right to exclude recognized in a patent is but the essence of the concept of property.'" Pet. App. 26a (citation omitted). This argument is wrong for two independent reasons. First, Congress has itself determined whether the statutory "right to exclude" requires a near-automatic injunction rule. Congress provided its answer in § 283, which does *not* create a special rule of injunctive relief for patent cases. Rather, it codifies a highly discretionary approach, guided by the general "principles of equity." Second, the near-automatic rule posited by the Federal Circuit also misstates the approach used in personal property cases generally.

a. Section 283 Rejects the Proposition That The Statutory "Right to Exclude" Requires A Special Rule For Injunctive Relief In Patent Cases.

35 U.S.C. § 154(a)(1) provides that "[e]very patent shall contain ... a grant to the patentee ... of the right to exclude others from making, using, offering for sale, or selling the invention." The Federal Circuit incorrectly approached this case as if Congress itself had not answered the question whether this statutory "right to exclude" required a special rule for injunctive relief in patent cases. In 35 U.S.C. § 283, Congress answered that question "no" by adopting the general "principles of equity" rather than a special, near-automatic injunction rule for patent cases.

If there were any doubt, it would be removed by 35 U.S.C. § 261. As the Federal Circuit observed, the "right to exclude" is an attribute of property. Pet. App. 26a. But § 261 provides that "[*s*]*ubject to the provisions of this title*, patents shall have the attributes of personal property." 35 U.S.C. § 261 (emphasis added). The "subject to" qualification means that a patent's status as personal property cannot be used to modify the discretionary approach to injunctive relief set forth in § 283, a "provision[] of this title." Because Congress has made the

policy choice that the statutory "right to exclude" does not support a special rule for injunctive relief in patent cases, there is no room for the federal courts to decide otherwise.

This is confirmed by a comparison to the Copyright Act. An author also has the "right to exclude" under the Copyright Act. *Fox Film Corp.* v. *Doyal*, 286 U.S. 123, 127 (1932). Nonetheless, as noted above, because, like § 283, 17 U.S.C. § 502(a) uses the word "may," this Court has rejected an automatic injunction rule in copyright cases. *Tasini*, 533 U.S. at 505; see also *Dun* v. *Lumbermen's Credit Ass'n*, 209 U.S. 20, 23-24 (1908) (affirming denial of an injunction in part because of the balance of hardships, and holding "the copyright owner should be remitted to his remedy at law").

Four additional reasons demonstrate why it would be particularly inappropriate in this patent case for the courts to substitute their policy choice for that of Congress.

1. As this Court has held, a patent "is created by the act of Congress; and no rights can be acquired in it unless authorized by statute, and in the manner the statute prescribes." *Gayler* v. *Wilder*, 51 U.S. (10 How.) 477, 494 (1850); *Crown Die & Tool Co.* v. *Nye Tool & Mach. Works*, 261 U.S. 24, 40 (1923) ("[p]atent property is the creature of statute law and its incidents are equally so"). Accordingly, the remedies protecting patent rights, including the right to exclude, are *only* available on the express terms set by Congress. Under § 283, those statutory terms give district courts traditional discretion to grant or deny injunctions.

2. A patentee's right to exclude is protected by other significant remedies besides potential injunctive relief. Section 284 requires "damages adequate to compensate for the infringement," including a reasonable royalty and interest. 35 U.S.C. § 284 ("the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed

by the court.").[8] Indeed, a patentee may be awarded damages not only for harm incurred in the past, but also for post-judgment "future losses." *Shockley* v. *Arcan, Inc.*, 248 F.3d 1349, 1362 (Fed. Cir. 2001). MercExchange did not seek recovery for such future losses.

Moreover, post-judgment violations of a patentee's right to exclude are further deterred by the threat of treble damages available under 35 U.S.C. § 284 ("[T]he court may increase the damages up to three times the amount found or assessed."). Indeed, here the district court stated that "the court will be more inclined to award enhanced damages for any post-verdict infringement." Pet. App. 59a. This Court has recognized that "[t]he very idea of treble damages reveals an intent to punish past, *and to deter future, unlawful conduct*." *Texas Indus., Inc.* v. *Radcliff Materials, Inc.*, 451 U.S. 630, 639 (1981) (emphasis added); see also *Mitsubishi Motors Corp.* v. *Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 635 (1985) ("The treble-damages provision ... pos[es] a crucial deterrent to potential violators."). Further deterrence of a future violation is also provided by the availability of attorneys' fees under 35 U.S.C. § 285. See *Mathis* v. *Spears*, 857 F.2d 749, 754 (Fed. Cir. 1988) ("Provisions for increased damages under 35 U.S.C. § 284 and attorney fees under 35 U.S.C. § 285 are available as deterrents to blatant, blind, willful infringement of valid patents." (footnote omitted)).

Thus, an injunction is not the sole statutory means by which to protect a patentee's right to exclude. This further undermines the purported justification for a near-automatic injunction rule. In *Romero-Barcelo*, this Court rejected a similar rule in part because "an injunction was not the only means of ensuring compliance." 456 U.S. at 314 (noting statutory rights could also be protected by fines and penalties). Here,

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[8] Thus, Congress has made pre-judgment interest available to patentees who prevail in an infringement suit. *Gen. Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 654 (1983).

the Patent Act creates a comprehensive scheme, in which an injunction is but one discretionary remedy. The Federal Circuit had no authority to rewrite or supplement that comprehensive scheme.

3. This Court has held that the Patent Act itself recognizes valid, competing interests that the statute balances against the "right to exclude." "[T]he federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself and the very lifeblood of a competitive economy." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989); *see also Pfaff* v. *Wells Elecs., Inc.*, 525 U.S. 55, 63 (1998) (federal patent laws reflect a "balance between the interest in motivating innovation and enlightenment by rewarding invention with patent protection on the one hand, and the interest in avoiding monopolies that unnecessarily stifle competition on the other."); *Fla. Prepaid Postsecondary Educ. Expense Bd.* v. *Coll. Sav. Bank*, 527 U.S. 627, 750 (1999) (Stevens, J., dissenting) ("[f]ederal interests are threatened, not only by inadequate protection for patentees, but also when *overprotection* may have an adverse impact on a competitive economy." (emphasis added)).

These concerns are even more applicable today because of the proliferation of patent assertion firms or "non-practicing entities" ("NPEs"). Overall, the number of patent applications has risen dramatically, from 125,931 applications filed in 1985 to 409,532 in 2005. U.S.P.T.O., *Performance & Accountability Report: Fiscal Year 2005*, at 119, *at* http://www.uspto.gov/web/offices/com/annual/. As the district court found, MercExchange is a NPE. Pet. App. 58a. Commentators in a recent report issued by the Federal Trade Commission ("FTC") identified the rise of patent suits by NPEs as a growing problem for the economy. FTC, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* ch. 3, 38-39 (2003) ("*FTC Report*"). Specifically,

NPEs "obtain and enforce patents against other firms, but either have no product or do not create or sell a product that is vulnerable to infringement countersuit by the company against which the patent is being enforced." *Id.* at 38. NPEs can "threaten [practicing entities] with patent infringement and an injunction, which, if granted, could inflict substantial losses." *Id.* Such losses include "higher prices to consumers, inefficiently low use of the affected products, and deadweight loss." *Id.* at 40-41. Ultimately, innovation may suffer because some companies will "'refrain from introducing certain products'" or, as here, forgo using certain functionalities for fear of such hold-up strategies to extract higher royalties. *Id.* at 41; *see also* Br. of *Amici* Business Software Alliance, et al., at 5-18; Br. of *Amici* Time Warner, et al., at 8-25.

Even before the rise of NPEs, Congress had balanced the competing interests in 35 U.S.C. § 283 by making injunctive relief discretionary under the four-factor "principles of equity." In striking a different balance with its near-automatic injunction rule, the Federal Circuit committed a fundamental error in statutory construction. As this Court explained in *Rodriguez* v. *United States*, 480 U.S. 522 (1987) (per curiam):

> [N]o legislation pursues its purposes at all costs. Deciding what competing values will or will not be sacrificed to the achievement of a particular objective is the very essence of legislative choice—and it frustrates rather than effectuates legislative intent simplistically to assume that *whatever* furthers the statute's primary objective must be the law. Where, as here, "the language of a provision . . . is sufficiently clear in its context and not at odds with the legislative history, . . . '[there is no occasion] to examine the additional considerations of "policy" . . . that may have influenced the lawmakers in their formulation of the statute.'"

Id. at 525-26 (omissions and second alteration in original). Congress made its "legislative choice" by adopting the discretionary language in section 283. That should end the matter.

4. Even assuming, for the sake of argument, that the statutory "right to exclude" would warrant a near-automatic injunction rule for some patent cases, there is no justification for that rule in this case where, as the district court found, MercExchange "exists merely to license its patented technology to others." Pet. App. 54a. As the Federal Circuit itself has held, "[a]ll or part of the right to exclude may be waived by granting a license, which may be express or implied." *Carborundum Co.* v. *Molten Metal Equip. Innovations, Inc.*, 72 F.3d 872, 878 (Fed. Cir. 1995).

b. There is No Near-Automatic Injunction Rule in Personal Property Cases.

The Patent Act states that "patents shall have the attributes of *personal* property," 35 U.S.C. § 261 (emphasis added), *not* real property. A personal property right has never been treated as a demand note for an injunction. The fourfold "principles of equity" have long been applied to disputes concerning personal property rights, and often yield the denial of an injunction. 43A C.J.S. *Injunctions* § 119 (2004) (noting that an injunction will not be granted "to prevent the removal or conversion of personal property where the injury may be fully redressed by an action at law for damages"); 42 Am. Jur. 2d *Injunctions* § 113 (2005) ("Instances of the issuing of injunction against such trespasses [upon personal property] are necessarily very rare, and seem to be confined to cases where the property trespassed upon or taken has some peculiar intrinsic value to the owner that cannot be compensated in money.").

This Court itself has applied the four-factor test to deny injunctive relief in property cases. See *Romero-Barcelo*, 456 U.S. at 312 (injunctions "should issue only where the intervention of a court of equity 'is essential in order effectually to protect property rights against injuries otherwise irremediable'" (quoting *Cavanaugh* v. *Looney*, 248 U.S. 453, 456 (1919))); *Rondeau* v. *Mosinee Paper Corp.*, 422 U.S. 49, 59-60 (1975) (holding that the district court properly applied the

four-factor test to deny injunctive relief); see also *City of Harrisonville, Mo.* v. *W.S. Dickey Clay Mfg. Co.*, 289 U.S. 334, 337-38 (1933) (Brandeis, J.) (denying injunction in case of "continuous or recurrent" "nuisance" injuring land, where "substantial redress can be afforded by the payment of money," and holding that "an injunction is not a remedy which issues as of course"); *Atchison* v. *Peterson*, 87 U.S. (20 Wall.) 507, 515 (1874) (in affirming denial of an injunction in a dispute concerning water rights, the Court considered the four traditional factors for equitable relief, including "whether an action at law would afford adequate remedy"); see also, *supra*, at 18 (citing copyright cases).[9]

Justice Story in his classic *Commentaries on Equity Jurisprudence* (Fred B. Rothman & Co. 1988) (Bigelow ed., 13th ed. 1886), explained how the traditional equitable factors applied in property cases generally. *Id.* Vol. 2, ¶ 928, at 233-34. Justice Story also noted that "[i]t is upon similar principles, to prevent irreparable mischief or to suppress multiplicity of suits and vexatious litigation that Courts of Equity interfere in cases of patents for inventions, and in cases of copyrights to secure the rights of the inventor or author and his assignees and representatives." *Id.* ¶ 930a, at 236. Story specifically

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[9] *See also Intel Corp.* v. *Hamidi*, 71 P.3d 296, 303 (Cal. 2003) ("to issue an injunction without a showing of likely irreparable injury in an action for trespass to chattels ... would make little sense"); *Mobley* v. *Saponi Corp.*, 212 S.E.2d 287 (Va. 1975) (denying an injunction because hardship to the defendant and public was disproportionate); *Hunter* v. *Carroll*, 15 A. 17, 18 (N.H. 1888) (injunction will not issue when the hardships were greatly disproportionate to the defendant even when defendant encroached upon plaintiff's land); *LeFurgy* v. *Long Cove Club Owners Assoc.*, 443 S.E.2d 577, 578 (S.C. Ct. App. 1994) ("In cases where an injunction is sought to abate an alleged private nuisance, the court must deal with the conflicting interests of the landowners by balancing the benefits of an injunction to the plaintiff against the inconvenience and damage to the defendant, and grant or deny an injunction as seem most consistent with justice and equity under the circumstances of the case.").

noted, for example, that an injunction "will not be granted in cases of gross laches or delay by the party seeking the relief in enforcing his rights; as for example where in case of a *patent* or copyright the patentee has lain by and allowed the violation to go on for a long time without objection or seeking redress." *Id.* ¶ 959a, at 262-63 (emphasis added); see also Henry L. McClintock, *Principles of Equity* § 149, at 398-99 (1948) ("[w]hen equitable relief for the protection of a patent or copyright is sought, the court will apply the ordinary principles of equity in determining the right to relief").

In sum, even if the language of 35 U.S.C. § 283 and § 261 were wrongly ignored, the Federal Circuit's personal property analogy would not support its near-automatic injunction rule.

B. A Determination Under § 283 To Grant Or Deny Injunctive Relief May Be Reviewed Only For Abuse of Discretion.

35 U.S.C. § 283 vests discretion over equitable relief in "the several courts having jurisdiction of cases in this title." This means the district courts. See 28 U.S.C. § 1338(a). A provision like 35 U.S.C. § 283 requires appellate courts to review district court determinations only for an abuse of discretion. See *Pierce* v. *Underwood*, 487 U.S. 552, 558 (1988) (provision vesting "discretion" in district court is an "explicit statutory command" to use an abuse of discretion standard of review); see also *Romero-Barcelo*, 456 U.S. at 320 ("Because Congress, in enacting the FWPCA, has not foreclosed the exercise of equitable discretion, the proper standard for appellate review is whether the District Court abused its discretion ....").

In *United States* v. *W.T. Grant Co.*, this Court affirmed a district court's denial of a permanent injunction, noting that "[t]he chancellor's decision is based on all the circumstances; his discretion is necessarily broad and a strong showing of abuse must be made to reverse it." 345 U.S. 629, 633 (1953). The Court observed that "[w]ere we sitting as a trial court,

[the appellant's] showing might be persuasive. But the [appellant] must demonstrate that there was no reasonable basis for the District Judge's decision." *Id.* at 634.

The Federal Circuit's decision made no pretense of reviewing the denial of an injunction under an abuse of discretion standard. Rather, the Federal Circuit erred by requiring the *district court* to persuade it that an injunction should be denied, effectively turning the abuse of discretion standard on its head. Pet. App. 26a ("the district court did not provide any persuasive reason to believe this case is sufficiently exceptional to justify the denial of a permanent injunction").

The Federal Circuit went on to rule that certain aspects of the district court's decision were insufficient when judged under an *incorrect* standard of *de novo* review and its *incorrect* rule requiring an injunction in all but exceptional circumstances. The Federal Circuit's decision was not, and cannot be resurrected as, a ruling that the district court abused its discretion under the correct four-factor test for an injunction. When the abuse of discretion standard and four-factor test are applied, as 35 U.S.C. § 283 requires, the district court's decision had more than a reasonable basis, was amply supported by precedent, and must be affirmed.

1. The District Court Properly Found The Absence Of Irreparable Injury.

With respect to irreparable injury, the district court followed Federal Circuit precedent that presumed irreparable harm, and imposed a burden on eBay to rebut that presumption. Pet. App. 53a; see *Reebok Int'l Ltd.* v. *J. Baker, Inc.*, 32 F.3d 1552, 1556 (Fed. Cir. 1994) (describing presumption as "a procedural device which shifts the ultimate burden of production on the question of irreparable harm onto the alleged infringer.").

At the outset, we note that the Federal Circuit's rebuttable presumption is improper. First, this Court has held that the movants bear the burden to prove irreparable harm. See *Ron-*

deau, 422 U.S. at 61 (holding that the district court was "entirely correct in insisting that [the plaintiff] satisfy the traditional prerequisites of extraordinary equitable relief by establishing irreparable harm"); *Ashwander* v. *Tenn. Valley Auth.*, 297 U.S. 288, 344-45 (1936) (Brandeis, J., concurring) (observing that "[e]ven where property rights of stockholders are alleged to be violated by the management, stockholders seeking an injunction must bear the burden of showing danger of irreparable injury, as do others who seek that equitable relief"). Specifically, a "presumption [of irreparable harm] is contrary to traditional equitable principles." *Amoco*, 480 U.S. at 545. Second, obligating district courts to presume irreparable harm is contrary to the language of 35 U.S.C. § 283, which provides that district courts "may" grant an injunction, not "presumptively should." Third, when Congress intended to create a presumption in Title 35 of the United States Code, it did so expressly. See, *e.g.*, 35 U.S.C. § 282 ("A patent shall be presumed valid."); *id.* § 295 (upon making certain findings "the product shall be presumed to have been so made [by a patented process], and the burden of establishing that the product was not made by the process shall be on the party asserting that it was not so made"). Congress did not do so in § 283.

Despite shifting the burden to eBay, however, the district court properly found that eBay proved an absence of irreparable injury. The district court found that "[s]ubstantial evidence was adduced at trial showing that the plaintiff does not practice its inventions and exists merely to license its patented technology to others." Pet. App. 54a. Moreover, "the plaintiff ha[d] made numerous comments to the media before, during, and after this trial indicating that it did not seek to enjoin eBay but rather sought appropriate damages for the infringement." *Id.* Such evidence that MercExchange was willing to accept money for the use of its patent helped show the lack of irreparable harm. "The key word in this consideration is irreparable. Mere injuries, however substantial, in terms of

money, time and energy ... are not enough." *Sampson* v. *Murray*, 415 U.S. 61, 90 (1974).

Even in prior Federal Circuit cases, licensing has been found to be "incompatible with the emphasis on the right to exclude that is the basis for the presumption [of irreparable harm] in a proper case." *T.J. Smith & Nephew Ltd.* v. *Consol. Med. Equip., Inc.*, 821 F.2d 646, 648 (Fed. Cir. 1987); see also *High Tech Med. Instrumentation* v. *New Image Indus., Inc.*, 49 F.3d 1551, 1556-67 (Fed. Cir. 1995) ("Although a patentee's failure to practice an invention does not necessarily defeat the patentee's claim of irreparable harm, the lack of commercial activity by the patentee is a *significant factor* in the calculus." (emphasis added)).

The Federal Circuit did not take issue with the district court's factual findings. Instead, under its erroneous "right to an injunction" test, it declared that "[i]njunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license." Pet. App. 27a. No one says they are. Under the correct four-factor test and the above-cited precedent, however, the district court reasonably considered MercExchange's pattern of licensing and public statements as substantial proof that, in this case, any injury was purely monetary, and thus not an irreparable harm. That determination was not unreasonable or an abuse of discretion.

The district court also reasonably noted that, although not a dispositive factor, MercExchange's failure to seek a preliminary injunction undercut its assertion that it would suffer irreparable injury absent a permanent injunction. Pet. App. 55a. It was eminently sensible for the court to question why it took MercExchange nearly two years of litigation, until the close of the trial, to seek injunctive relief if the allegedly ongoing infringement by eBay created irreparable harm.

The Federal Circuit erroneously held that delay is pertinent when a plaintiff seeks a "preliminary injunction," but always immaterial when the plaintiff seeks a permanent injunction.

Id. at 27a-28a. *Amoco*, however, rejected a very similar argument that irreparable injury has a different test depending on whether the injunction sought is preliminary or permanent. "We fail to grasp the significance of this distinction. The standard for a preliminary injunction is essentially the same as for a permanent injunction with the exception that the plaintiff must show a likelihood of success on the merits rather than actual success." *Amoco*, 480 U.S. at 546 n.12; see also 11A Charles Alan Wright, et al., *Federal Practice and Procedure* § 2948, at 129 (2d ed. 1995) ("An injunction under Rule 65(a) is subject to the same equitable principles that govern the grant or denial of a permanent injunction.").[10]

In sum, the district court's finding that irreparable injury was lacking was more than reasonable and supported by ample authority, and thus cannot be an abuse of discretion.

2. The District Court Properly Found That MercExchange Had An Adequate Remedy At Law.

MercExchange's willingness to license its patents, including to eBay itself, and public comments also supported the

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[10] Indeed, in *Carson* v. *American Brands, Inc.*, 450 U.S. 79 (1981), where this Court denied an interlocutory appeal of the district court's denial of a consent decree, in effect a denial of a permanent injunction, because of a lack of irreparable injury, the Court explained that an earlier failure to seek a preliminary injunction indicated that plaintiff would not suffer irreparable harm. *Id.* at 85; *see also Beame* v. *Friends of the Earth*, 434 U.S. 1310, 1313 (1977) (Marshall, Circuit Justice) (in appeal from a district court's post-judgment order requiring compliance with pollution control programs, denying application of stay pending certiorari in part because "[t]he applicants' delay in filing their petition and seeking a stay vitiates much of the force of their allegations of irreparable harm"). Citing *Carson*, the Seventh Circuit has held, in the context of a permanent injunction in a trademark infringement case, that a plaintiff's failure to seek a preliminary injunction "strongly undermines its argument today that a delay in issuing a permanent injunction will cause it to suffer irreparable harm." *Simon Prop. Group, L.P.* v. *mySIMON, Inc.*, 282 F.3d 986, 990 (7th Cir. 2002) (citing *Carson*).

district court's finding that MercExchange would have an adequate remedy at law. Pet. App. 55a-56a. Even when property rights are at issue, an injunction is inappropriate when money damages can adequately compensate for any harm. See *Rondeau*, 422 U.S. at 59-60 (affirming the denial of a permanent injunction and holding that plaintiff shareholders "have an adequate remedy by way of an action for damages, thus negating the basis for equitable relief"); *Youngstown Sheet & Tube Co.* v. *Sawyer*, 343 U.S. 579, 595 (1952) (Frankfurter, J., concurring) ("A plaintiff is not entitled to an injunction if money damages would fairly compensate him for any wrong he may have suffered.").[11] Moreover, here the district court noted that MercExchange was further protected against infringement by the fact that the court would be inclined to assess the legal remedy of "enhanced damages" against eBay were it found to have infringed after the verdict. Pet. App. 59a.

Because the Federal Circuit used the wrong test, under which every patentee effectively has a "right to an injunction," it suggested that an "adequate remedy" had to give the patentee "additional leverage" in negotiating a settlement. *Id.* at 27a. Once again, the Federal Circuit contradicted the traditional four-factor test. Under the proper approach, when "it is recognized that the only real advantage to a plaintiff in granting the injunction would be to strengthen its position in negotiating a settlement, an injunction should not issue." *Nerney* v. *New York, New Haven & Hartford R.R.*, 83 F.2d 409, 411 (2d Cir. 1936); *Foster*, 492 F.2d at 1324.

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[11] Even in prior Federal Circuit cases, there was authority that money damages can be an adequate remedy when a patentee has shown a willingness to license. *See, e.g., High Tech*, 49 F.3d at 1557 ("[T]he evidence shows that [the plaintiff] offered a license to [the defendant], so it is clear that [the plaintiff] is willing to forgo its patent rights for compensation. That evidence suggests that any injury suffered by [plaintiff] would be compensable in damages assessed as part of the final judgment in the case.").

Moreover, the text of the Patent Act itself negates any suggestion that patents are appropriately used for settlement leverage. Section 284 authorizes patentees to recover a "*reasonable* royalty for the *use made of the invention* by the infringer." 35 U.S.C. § 284 (emphasis added). The value of the "use made of the invention" does not change merely because the patentee has leverage from an injunction. Indeed, "reasonable royalty" means what "a willing licensor and willing licensee might have agreed to during a hypothetical negotiation at the time infringement began." *E.g.*, *Catalina Lighting, Inc.* v. *Lamps Plus, Inc.*, 295 F.3d 1277, 1289 (Fed. Cir. 2002).

The Patent Act's remedies are not intended to enable the patentee to obtain a windfall gain. In particular, as this Court has recognized, the Patent Act was amended in 1946 to remove the prior ability of a patentee to obtain a defendant's profits in excess of the patentee's injury. *Gen. Motors Corp.* v. *Devex Corp.*, 461 U.S. 648, 654 (1983) ("A patent owner's ability to recover the infringer's profits reflected the notion that he should be able to force the infringer to disgorge the fruits of the infringement even if it caused him no injury. In 1946 Congress excluded consideration of the infringer's gain by eliminating the recovery of his profits....") (citing *Aro Mfg. Co.* v. *Convertible Top Co.*, 377 U.S. 476, 505 (1964)). Permitting a patentee to use an injunction for leverage would impermissibly open a side door for what Congress has provided cannot come in through the front door.

It would be particularly inappropriate in this case to allow MercExchange to leverage an improper injunction into a windfall gain. The district court found that eBay's "success did not arise from the use of anything contained in the plaintiff's patents." Pet. App. 58a.

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Because the district court did not abuse its discretion in finding an absence of irreparable injury and the presence of an adequate remedy at law, appellate affirmance is manda-

tory. Under these circumstances, there could be no abuse of discretion in denying an injunction regardless of the other two factors. See *Rondeau*, 422 U.S. at 64-65 ("the fact that respondent is pursuing a cause of action which has been generally recognized to serve the public interest provides no basis for concluding that it is relieved of showing irreparable harm and other usual prerequisites for injunctive relief"); *Romero-Barcelo*, 456 U.S. at 312 ("The Court has repeatedly held that the basis for injunctive relief in the federal courts has always been irreparable injury and the inadequacy of legal remedies."); *Lyons*, 461 U.S. at 111 ("The equitable remedy is unavailable absent a showing of irreparable injury ...."); *O'Shea* v. *Littleton*, 414 U.S. 488, 502 (1974) ("Respondents have failed, moreover, to establish the basic requisites of the issuance of equitable relief in these circumstances—the likelihood of substantial and immediate irreparable injury, and the inadequacy of remedies at law.").

Thus, any error concerning either the balance of hardships or public interest factor could only be harmless.[12] Nevertheless, here, the district court acted reasonably in its treatment of these two factors.

3. The District Court Properly Found That The Balance Of The Hardships Weighed Against An Injunction.

In considering this factor, the district court found that because eBay was seeking to work around the MercExchange

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[12] If an error affecting any factor was not harmless, the only proper appellate remedy would be to remand for the district court (*not* the Federal Circuit) to reweigh the four factors. *See Mitchell* v. *Lublin, McGaughy & Assocs.*, 358 U.S. 207, 215 (1959) (when legal error required remand "it will still be in within the discretion of the district court whether or not to issue an injunction"); *cf. Chrysler Motors Corp.* v. *Auto Body Panels of Ohio, Inc.*, 908 F.2d 951, 953 (Fed. Cir. 1990) ("If the injunction is denied, the absence of an adequate showing with regard to *any one factor* may be sufficient, given the weight or lack of it assigned the other factors, to justify the denial." (emphasis added)).

patents, the grant of an injunction would likely subject both parties to litigating numerous contempt proceedings at "extraordinary costs to [both] parties." Pet. App. 59a ("the court understands that these reasons alone are not sufficient to deny an injunction to a patent holder"). Moreover, the district court bolstered its determination by ruling that "the court will be more inclined to award enhanced damages for any post-verdict infringement." *Id.* In light of these factors, the district court reasonably found that the hardships weighed "slightly" in favor of denying an injunction. *Id.* at 58a.

Regrettably, MercExchange had already shown a willingness to abuse an injunction issued by the court. The court had enjoined ReturnBuy in February of 2003. Subsequently, MercExchange moved for a contempt finding against eBay for allegedly facilitating the violation of that injunction. The District Court, however, rejected that motion because MercExchange had failed to show either infringement by ReturnBuy, or any aiding and abetting by eBay. Pet. App. 62a.

The Federal Circuit agreed with the district court that continued trial court litigation in this case would follow even if an injunction were granted against eBay. *Id.* at 27a ("A continuing dispute of that sort is not unusual in a patent case ...."). The Federal Circuit, however, incorrectly held that this was not a permissible consideration. *Id.*

This Court has indicated that an injunction only prevents hardship to the plaintiff from multiple litigation if the injunction would render multiple litigation "unnecessary." See *Pub. Serv. Comm'n* v. *Brashear Freight Lines, Inc.*, 312 U.S. 621, 630 (1941) ("the action of equity ... has traditionally exerted its power ... to prevent the harmful consequences of an *unnecessary* multiplicity of causes of action" (emphasis added)). As the district court and the Federal Circuit both noted, however, multiple trial court litigation was likely to be "necessary" in this case, with or without an injunction. Accordingly, the district court acted reasonably and within its discre-

tion in finding that an injunction would not prevent hardship to MercExchange by avoiding multiple litigation.

In contrast, the threat of contempt proceedings from a possible subsequent violation of an injunction represented a grave hardship to eBay. Unlike a subsequent infringement action, proceedings to enforce an injunction permit a patentee to invoke the "severe remedy" of contempt. *Cal. Artificial Stone Paving Co.* v. *Molitor*, 113 U.S. 609, 618 (1885). For example, "[c]ontempt proceedings are generally summary in nature and may be decided by the court on affidavits and exhibits without the formalities of a full trial." *KSM Fastening Sys., Inc.* v. *H.A. Jones Co.*, 776 F.2d 1522, 1524 (Fed. Cir. 1985); see also *Lawson* v. *Murray*, 515 U.S. 1110, 1114 (1995) (Scalia, J., concurring) (noting that a remedial injunction is "enforceable through civil contempt, a summary process without the constitutional protection of a jury trial; and the only defense available to the enjoined party is factual compliance with the injunction"). The defendant "bears the risk that the enjoining court may find changes to be too insubstantial to avoid contempt." *KSM*, 776 F.2d at 1524.

Moreover, "[i]f violation is found, the contemnor may be punished by fine (payable to the patent owner) and imprisonment, even in civil contempt." *Id.* at 1524. Fines or imprisonment can extend to a company's officers. See, *e.g.*, *Penfield Co. of Cal.* v. *SEC*, 330 U.S. 585, 592 (1947). Moreover, government entities, other businesses, or consumers may decline to do business with a company that has been publicly subjected to criminal sanctions.

For most companies, these risks can be overwhelming. The mere possibility of a summary contempt proceeding could compel a rational defendant to settle, and effectively pretermit even a meritorious appeal. Moreover, because patentees can make any settlement contingent on the defendant forgoing PTO's reexamination proceedings, an avenue otherwise available to establish the invalidity of patents would be closed. Because of these risks, and to avoid the extortion of *in ter-*

rorem royalties through an injunction-induced settlement, the district court did not abuse its discretion in finding that the balance of hardships favored the denial of an injunction. Cf. *City of Harrisonville*, 289 U.S. at 337-38 (denying an injunction when "substantial redress can be afforded by the payment of money," but its issuance "would subject the defendant to grossly disproportionate hardship").

Finally, the uncertainty about whether additional conduct would constitute patent infringement completely undermines the argument of Respondent and its amici that injunctions should issue as of matter of course, like in real property cases. *See*, *supra*, at 21. There is a much greater need for equitable discretion in patent cases. When there is a real property injunction, the boundaries of the property are rarely disputable. In contrast, a patent injunction is often vague because the scope of patent claims typically involve technical terms and complex subjects. The resulting uncertainty is compounded because the Federal Circuit is very lax concerning properly instructing lay jurors as to the construction of patent claims. *See, e.g.*, *Sulzer Textil A.G.* v. *Picanol N.V.*, 358 F.3d 1356, 1367 (Fed. Cir. 2004) (holding that district court's failure to provide any claim construction instructions was harmless error); Zegger, *The Paper Side of Jury Trials*, PLI Patent Litigation 2004, 749, 761-62 (discussing the Federal Circuit's approval of the district courts' "abdication of *Markman* responsibilities"). Thus, the extent of the infringement found bound by juries is often highly uncertain. Accordingly, the prospect of further litigation about whether a patent injunction has been violated is far more likely in a patent case than in a real property case.

This case illustrates this unfortunate pattern. MercExchange's patent claims were vague. MercExchange was allowed to present a theory of infringement that could not be more vague and indeterminate—that is, that eBay's person-to-person system was a "trusted network." See, *supra*, at 6-8. The testimony of MercExchange's own expert establishes that

the boundaries of what constitutes a "trusted network" cannot remotely be compared to the metes and bounds of real property. As he testified: "[T]rust is not an absolute. It is a goal." [Tr. 1681]. As the district court found, if an injunction were granted based on so amorphous a theory of infringement, litigation "would continue," resulting in "contempt hearing after contempt hearing." Pet App. 58a-59a. These circumstances amply supported the district court's finding that injunctive relief would not spare anyone from further litigation.

4. The District Court Properly Found That The Public Interest Did Not Favor Granting An Injunction.

The district court concluded that the public interest factor neither counseled for nor against granting an injunction. Pet. App. 58a. That finding was more than reasonable.

This Court has held that even when (unlike here) the plaintiff would suffer an irreparable injury, a court of equity has the discretion to decline to order an injunction when there would be adverse consequences to the public interest. *Romero-Barcelo*, 456 U.S. at 305. Even the Federal Circuit recognizes a public interest exception, albeit a very narrow one. Pet. App. 26a.

The district court offered two proper reasons for why the public interest did not support an injunction in this case. First, "the public does not benefit from a patentee who obtains a patent yet declines to allow the public to benefit from the inventions contained therein." Pet. App. 57a. The Federal Circuit did not and could not dispute this reason, given this Court's precedents. See, *supra*, at 24-25.

The other reason noted by the district court related to the possibility that the regulatory landscape might change, and thus there might not be a valid patent to vindicate. In particular, the district court noted that Congressional representatives and the PTO had expressed concern about the invalidity of some business method patents and the potential harm to inno-

vation from them. Pet. App. 57a. This observation proved, in its general direction, to be prescient. Here, subsequent to the district court's final judgment, the PTO reexamination process has rejected all of the claims in the '265 patent for which the Federal Circuit ordered an injunction. See, *supra*, at 14.[13]

Generally, when reexamination occurs, one recent article states that nearly 74% of the time the PTO finds the patent invalid or restricts its claims. Anne Marie Squeo, *BlackBerry Gambles Patent Office Will Be On Its Side In Court*, Wall St. J., Jan. 17, 2006, at B1. This rate is unsurprising given that the overworked PTO can spend a mere 18 hours on average to review a patent application before initial issuance. Gideon Parchomovsky, *Patent Portfolios*, 154 U. Pa. L. Rev. 1, 61 (2005); *see also* Cecil D. Quillen, Jr., *Continuing Patent Applications and Performance of the U.S. Patent and Trademark Off.*, 11 Fed. Cir. B.J. 1, 3 (2001) (estimating rate of patent approvals by the PTO to be 97%).

Despite this, the Federal Circuit held that any concern regarding patent invalidity "is not the type of important public need that justifies the unusual step of denying injunctive relief." Pet. App. 26a. Once again, this approach contradicted the four-factor test and the abuse of discretion standard of review. Under that test and standard, the district court may consider possible regulatory action that might render the defendant's conduct permissible. See *Romero-Barcelo*, 456 U.S. at 320 (district court's "equitable discretion" allowed it

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[13] The Federal Circuit has itself noted that pending PTO reexamination proceedings can support the imposition of a stay of an injunction. *See Slip Track Sys., Inc.* v. *Metal Lite, Inc.*, 159 F.3d 1337, 1341 (Fed. Cir. 1998) ("under some circumstances it is entirely appropriate for a district court to stay an action in favor of a copending proceeding in the PTO."); *Standard Havens Prods., Inc.* v. *Gencor Indus., Inc.*, 27 U.S.P.Q.2d 1959, 1960 (Fed. Cir. 1993) (per curiam) (unpublished) (requiring a stay of a permanent injunction and noting that if the final PTO decision as to unpatentability is upheld, "the injunction would thereby immediately become inoperative" and the patent would be considered "void *ab initio*").

to consider, as a factor in denying an injunction against violations of the Federal Water Pollution Control Act, the possibility of a subsequent regulatory permit).

In sum, under 35 U.S.C. § 283, the district court's denial of an injunction must be affirmed because it cannot be considered an abuse of the discretion vested in the district courts by that statute.

II. *CONTINENTAL BAG* DOES NOT PRECLUDE TRADITIONAL EQUITABLE DISCRETION.

This Court directed the parties to address whether *Continental Bag* should be reconsidered concerning "when it is appropriate to grant an injunction against a patent infringer." Questions related to *stare decisis* require "distinguish[ing] an opinion's holding from its dicta." *United States Nat'l Bank* v. *Indep. Ins. Agents of Amer., Inc.*, 508 U.S. 439, 463 n.11 (1993). *Dicta*, the portions of an opinion "not essential" to the disposition of a case, see *Cent. Green Co.* v. *United States*, 531 U.S. 425, 431 (2001), do not bind the courts in subsequent cases. See *Alexander* v. *Sandoval*, 532 U.S. 275, 282 (2001) (courts are "bound by holdings, not language"); *Kokkonen* v. *Guardian Life Ins. Co. of Am.*, 511 U.S. 375, 379 (1994) ("[i]t is to the holdings of our cases, rather than their dicta, that we must attend").

First, we demonstrate that *Continental Bag*'s holding has no implications for this case. Second, we demonstrate that if this Court concludes that it must overrule *Continental Bag*'s holding in order to enforce the Patent Act's plain language, then it should do so.

A. This Court Need Not Overrule *Continental Bag* To Reverse The Federal Circuit.

1. *Continental Bag* involved a trial court's grant of an injunction. The court of appeals affirmed. As *Continental Bag* noted, the "contention of the petitioner is that a court of equity *has no jurisdiction* to restrain the 'infringement of letters

patent the invention covered by which has long and always and unreasonably been held in nonuse . . . instead of being made beneficial to the art to which it belongs.'" 210 U.S. at 422 (emphasis added) (omission in original). The Court stated that the question presented was "*not of the construction of the law simply*, but of the conduct of the patentee *as contravening the supposed public policy of the law*." *Id.* (emphasis added). Continental Bag did not contend that "nonuse merely of the patent takes jurisdiction from equity, but *an unreasonable nonuse*." *Id.* It did not otherwise challenge the propriety of the injunction. *Id.* at 422.

Continental Bag's holding is merely that the trial court had jurisdiction to issue an injunction despite an unreasonable nonuse of the patent. The Court explained that the statute's provision of "an exclusive right to inventors to make, use, and vend their inventions," *id.* at 423, applied even "[i]f he will neither use his device nor permit others to use it." *Id.* at 425 (quoting *E. Bement & Sons* v. *Nat'l Harrow Co.*, 186 U.S. 70, 90 (1902) (internal quotations and citations omitted)).[14]

Continental Bag did not (and could not) strip the district courts of their equitable discretion. Rather, the Court stated:

> Whether, however, a case cannot arise where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction, *we do not decide*.

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[14] *Continental Bag*'s narrow holding has been criticized. In *Special Equipment Co.* v. *Coe*, 324 U.S. 370 (1945), Judges Douglas, Black and Murphy dissented, saying that it was "time to be rid" of *Continental Bag*'s rule that a patent holder is "'neither bound to use his discovery himself, nor permit others to use it.'" *Id.* at 381. The dissenters opined that "[i]t is a mistake . . . to conceive of a patent as but another form of private property," and that the Court's rule had resulted in the "suppression of patents." *Id.* at 382. Thus, the dissenters would have withheld the aid of equity "from a patentee who has employed or plans to employ the patent not to exploit the invention but to suppress it in order to protect another patent or otherwise." *Id.* at 384.

210 U.S. at 430. *Continental Bag* thus left open whether injunctive relief may be denied in circumstances different from those presented in that case, such as here, where (a) the patentee is willing to license and has said repeatedly that all it seeks is money, (b) there is a possibility that the infringer can develop a work-around, and (c) additional litigation will occur whether an injunction issues or not. See *supra* at 30-42. *Continental Bag* thus does not support, much less mandate, the Federal Circuit's near-automatic injunction rule.

2. In overreading *Continental Bag* to hold that injunctions are nearly automatic in patent infringement cases, MercExchange has cited the following non-binding *dicta*:

> From the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee.

210 U.S. at 430. This overreading is wrong for three reasons. First, the fact that a patent holder has a right to exclude does not answer the question whether an injunction is always necessary to protect exclusivity, and is otherwise proper. For example, it is not necessary here because, as the district court found, MercExchange "exists merely to license its patented technology to others." Pet. App. 54a. *Continental Bag* does not hold that patent holders who do *not* seek to exclude others from using their invention are inexorably entitled to permanent injunctions.

Second, the Court in *Continental Bag* was not even asked to address the statutory language, and it did not do so. *Cent. Va. Cmty. Coll.* v. *Katz*, —S. Ct—, 2006 WL 151985 (U.S. Jan. 23, 2006) ("we are not bound to follow our dicta in a prior case in which the point now at issue was not fully debated"). In the version of the patent statute in effect when *Continental Bag* was decided, the controlling statutory lan-

guage provided district courts with discretion regarding injunctive relief. See Act of Feb. 15, 1819, ch. 19, 3 Stat. 481, 481 (providing that courts "shall have authority to grant injunctions according to the course and principles of courts of equity"). It is, at the very least, extremely unlikely that the Court would have interpreted the Patent Act to establish a near-automatic general rule *mandating* injunctive relief without addressing the *discretionary* language of the statute itself.

Finally, the cited passage from *Continental Bag* is nonbinding *dicta*. Continental was not raising an issue concerning how the "right to exclude" should affect the standard for injunctive relief generally. Instead, Continental made only the specific challenge that long-term, unreasonable patent nonuse deprived the equity court of jurisdiction. *Continental Bag's* holding goes no further than rejection of this challenge. *Continental Bag* may establish that every patentee may seek an injunction, but it does not hold that the courts will issue an injunction on a nearly automatic basis.

In sum, *Continental Bag* does not justify the Federal Circuit's decision. Thus, reversal of the Federal Circuit does not require that the holding of *Continental Bag* be overruled.

B. Assuming *Continental Bag* Precludes Equitable Discretion, Then It Should Be Overruled.

Stare decisis serves numerous important interests, most notably the "evenhanded, predictable, and consistent development of legal principles," "reliance on judicial decisions," and "the actual and perceived integrity of the judicial process." *Khan*, 522 U.S. at 20. It is, however, "'a principle of policy' rather than 'an inexorable command.'" *Hahn* v. *United States*, 524 U.S. 236, 251 (1998) (quoting *Payne* v. *Tenn.*, 501 U.S. 808, 828 (1991)). There are competing interests in "recognizing and adapting to changed circumstances and the

lessons of accumulated experience." *Khan*, 522 U.S. at 10.[15] Assuming for the sake of argument, that the holding of *Continental Bag* required a near-automatic injunction rule, then *Continental Bag* should be overruled for five reasons.

1. The near-automatic injunction rule alleged to emerge from *Continental Bag* cannot be reconciled with the plainly discretionary language of 35 U.S.C. § 283. See *supra*, at 18.

2. After *Continental Bag*, this Court has repeatedly held that a statute must contain an "unequivocal statement" before it will be read to limit equitable discretion under the traditional four-factor test. *E.g.*, *Hecht*, 321 U.S. at 329, see *supra*, at 19-20 (citing cases). If *Continental Bag* were read otherwise, it should be overruled as "inconsistent with the prevailing uniform construction of other federal statutes." *Rodriguez de Quijas* v. *Shearson/American Express, Inc.*, 490 U.S. 477, 484 (1989).[16]

3. The reliance and integrity interests protected by the *stare decisis* doctrine are not implicated by the overruling of the near-automatic injunction rule alleged to emerge from *Continental Bag*. For 76 years after *Continental Bag* was decided, lower courts did not read that decision to impose a mechanical injunction rule. The courts of appeals, including for many years the Federal Circuit in its initial years, applied the traditional test for injunctive relief in patent-infringement

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[15] This brief addresses only the standard for *stare decisis* in a non-constitutional case. No issue is raised in this case that has any application to *stare decisis* in a constitutional case.

[16] *See also Hubbard* v. *United States*, 514 U.S. 695, 713 (1995) (plurality opinion by Stevens, J., joined by Ginsburg, Breyer, JJ.) (overruling because of "'intervening development of the law'") (quoting *Patterson* v. *McLean Credit Union*, 491 U.S. 164, 173 (1989)); *Dir., Off. of Workers' Comp. Progs.* v. *Greenwich Collieries*, 512 U.S. 267, 278 (1994) (overruling because "our precedents are in tension"); *Exxon Corp.* v. *Cent. Gulf Lines, Inc.*, 500 U.S. 603, 611-12 (1991) (overruling because, in part, prior decision was "incompatible with current principles").

cases. For example, the Second Circuit in *American Safety Device Co.* v. *Kurland Chemical Co.*, 68 F.2d 734 (2d Cir. 1934), denied a patent holder's request for an injunction against use of his invention, stating:

> Injunctions are granted only on equitable grounds. Where there is a plain and adequate remedy at law, as where damages in money will afford complete relief, there is no basis for the intervention of equity in patent litigation. Even where there is equitable jurisdiction an injunction will not be granted in a patent suit as a matter of course. [17]

Id. at 735 (citation omitted). This 76-year record weakens the argument for *stare decisis*. See *Hahn*, 524 U.S. at 252-53 (discussing factor of "consistency with which [prior decision] has been applied in practice").

4. The nature of 35 U.S.C. § 283 diminishes the relevance of *stare decisis* and enhances the importance of the "lessons of accumulated experience" in this context. *Khan*, 522 U.S. at 20. Section 283 instructs the courts to follow the "principles of equity." 35 U.S.C. § 283. Equitable principles adapt to changed circumstances and accumulated experience. See *Union Pac. Ry.* v. *Chicago Rock Island & Pac. Ry.*, 163 U.S. 564, 601 (1896) (equity evolves "in order to meet the re-

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[17] *See also, e.g., Foster*, 492 F.2d at 1324; *Vitamin Tech., Inc.* v. *Wisc. Alumni Res. Found.*, 146 F.2d 941, 956 (9th Cir. 1945); *City of Milwaukee* v. *Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934); *Smith Int'l, Inc.* v. *Hughes Tool Co.*, 718 F.2d 1573, 1577-79 (Fed. Cir. 1983) (citing *Continental Bag* and expressly instructing district courts to employ traditional equitable analysis before issuing an injunction); *Roche Prods., Inc.* v. *Bolar Pharm. Co.*, 733 F.2d 858, 865-66 (Fed. Cir. 1984) ("[I]f Congress wants the federal courts to issue injunctions without regard to historic equity principles, it is going to have to say so in explicit and even shameless language .... The district judge, before getting into the issue of equitable relief, must determine if he can deal with the case by adequate money damages. If he can, the predicate for equitable relief of a harsh, or even a mild, character is gone.").

quirements of every case, and to satisfy the needs of a progressive social condition") (internal quotations omitted).

Adherence to the mechanical injunction rule allegedly mandated by *Continental Bag* would be particularly inappropriate given the adaptable nature of equitable principles. By using the term "principles of equity" in 35 U.S.C. § 283, Congress intended the courts to have the flexibility to reconsider the application of those principles to patent cases based on changing economic contexts. Cf. *Trammel* v. *United States*, 445 U.S. 40, 47 (1980) (unanimously overruling 22-year old precedent on privilege, noting that Congress had given courts "flexibility" and thus that "Congress manifested an affirmative intention not to freeze the law of privilege").

The relevant economic contexts have changed dramatically since *Continental Bag* was decided. As goods and services in our economy have become increasingly complex and technology has advanced, a patent holder's ability to leverage and abuse an automatic entitlement to an injunction has increased. A patent holder may be able to obtain an injunction against the use of a minor element of a complex product. See Br. of *Amici* Time Warner, et al., at 8-12. Such a patent may be of small value in and of itself, *e.g.*, if there are available non-infringing alternatives or if technology provides a work-around. Yet, if that element has been incorporated into a complex manufacturing process, it may be extremely costly to substitute a non-infringing component (by necessitating re-tooling, a period of shutdown and loss of customers, etc.). This harms not only productive companies, but also their innocent employees and consumers, and even vital parts of the economy, such as the capital markets and the banking system. See Br. of *Amici* Sec. Indus. Assoc, et al, at 9-15. The near-automatic injunction rule allows a patent holder to threaten to impose these massive substitution costs or to shut down a business, and thus to extort from the infringer a windfall settlement far in excess of any reasonable licensing fee.

The potential for harm to the economy resulting from patent injunctions has been multiplied by the new phenomena of NPEs, professional patent litigators, and the resulting increase in patent litigation. See Wendy H. Schacht & John R. Thomas, *Congressional Research Report: Patent Reform: Innovation Issues* 7, 9 (2005) ("*Patent Reform*"). These entities neither develop nor license patents, but rather seek out companies that have developed valuable products in order to sue them and extort settlements from them. See *FTC Report*, ch. 3, 38-39.

This situation is worsened by the forum shopping available under the virtually nationwide venue in patent cases involving products used broadly. 28 U.S.C. § 1400(b); see *VE Holding Corp.* v. *Johnson Gas Appliance Co.*, 917 F.2d 1574, 1583 (Fed. Cir. 1990). See also Kimberly A. Moore, *Forum Shopping Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. Rev. 889, 891 (2001) (large-scale empirical analysis of patent cases concluding that "despite the creation of the Federal Circuit, choice of forum continues to play a critical role in the outcome of patent litigation" and that patent cases are "consolidated in a few select jurisdictions"). For example, every repeat patent litigant knows of the town of Marshall, Texas, which has a population of 25,000. "[P]laintiffs are flocking to Marshall: The number of patent cases filed there jumped from 58 in 2003 to 110 in 2004, with another 115 filed this year through September." Alan Cohen, *From PI to IP*, Corp. Couns., Jan. 2006, at 87; *see also* Tresa Baldas, *IP Hotbed-For Now*, Nat'l L.J., Dec. 20, 2004, at 26. In effect, the combination of forum shopping and the Federal Circuit's near-automatic injunction rule once a jury finds infringement, has created a system where *juries* are mandating injunctions. That system cannot be squared with § 283, which places equitable discretion *in the district courts*.

Moreover, the fast pace of technological and scientific advances in today's economy increases the possibility that numerous companies may be able to work around patented in-

ventions by developing their own innovations. The risks from the issuance of an injunction, however, distort and suppress companies' incentives to innovate by such workarounds. See *supra* at 25, 48. It often will be safer to use an existing invention and pay the licensing fees than to develop an alternative and litigate about its validity. This outcome contravenes the central goal of patent law to "foster and reward ... invention to stimulate further innovation." *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979).

5. Finally, in 1980, Congress gave third parties recourse to the PTO to seek reexamination of the validity of patents under specified circumstances. See 35 U.S.C. §§ 302 et seq.; *id.* at §§ 315 et seq. These administrative procedures allow the participation of third parties, and raise the possibility that a patent will be deemed invalid or restricted some years after its initial approval by the PTO. Indeed, in this case, the patent claims for which the Federal Circuit ordered an injunction currently stand rejected in the PTO reexamination process. See *supra*, at 13-14. When an injunction issues as the result of patent-infringement litigation, it halts the use of an invention, often disrupting or even terminating a business, or forcing an *in terrorem* settlement, even though the patent might, upon reexamination, be invalidated or restricted. The Federal Circuit's near-automatic injunction rule substantially increases the likelihood that such irreparable harm will be caused mistakenly. In contrast, when the traditional, discretionary, four-factor equitable inquiry is conducted, the possibility of PTO reexamination proceedings can be (and should be) considered. See *supra*, at 40-41.

In sum, assuming (for the sake of argument) that *Continental Bag* establishes a near-automatic injunction rule, that decision should be overruled.

CONCLUSION

For the foregoing reasons, the judgment of the court of appeals should be reversed.

Respectfully submitted,

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STATUTORY APPENDIX

35 U.S.C. § 154. Contents and term of patent; provisional rights

(a) In general.—

(1) Contents.—Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, of the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of the right to exclude others from using, offering for sale or selling throughout the United States, or importing into the United States, products made by that process, referring to the specification for the particulars thereof.

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35 U.S.C. § 261. Ownership; assignment

Subject to the provisions of this title, patents shall have the attributes of personal property.

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35 U.S.C. § 284. Damages

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d) of this title.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

35 U.S.C. § 285. Attorney fees

The court in exceptional cases may award reasonable attorney fees to the prevailing party.